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SUBJECT: REACTION TO THE GLOBAL ECONOMIC CRISIS; CODEL MORAN VISITS BEIJING

REF: (A) Beijing 1571; (B) Beijing 1556; (C) Beijing 1586

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**¶1.** (SBU) SUMMARY. Representative James Moran (D-VA) and Joint Economic Committee Chair Carolyn Maloney (D-NY) visited Beijing September 1 to 3 to meet with key financial, sovereign wealth, and Chinese government leaders. Responding to entreaties to open an office in New York, China's sovereign wealth fund explained they are deciding between New York and Hong Kong. Bankers and researchers confirmed that the U.S. dollar's international reserve position is currently unthreatened, and China will continue to buy dollar assets. Interlocutors disagreed on the prospect for near term rebalancing in China, with the central banker more sanguine than researchers. An official at China's reserve management agency also downplayed the prospects for Renminbi exchange rate adjustments in the near future. Officials expressed some interest in investment in the United States, but showed concerns that the American banking system still has unrealized liabilities. END SUMMARY.

**¶2.** (SBU) On September 1-3, the delegation met with representatives from the China Banking Regulatory Commission (CBRC), the People's Bank of China (PBOC), Minsheng Bank, the State Administration for Foreign Exchange (SAFE), the National People's Congress (NPC), China Investment Corporation (CIC), China International Capital Corporation (CICC), and the China Center of International Economic Exchanges (CCIEE).

ENCOURAGING CIC BRANCH IN NYC

**¶3.** (SBU) In a meeting with Gao Xiqing, President of CIC (China's sovereign wealth fund), Representative Maloney explained the advantages to CIC of opening its first overseas office in Manhattan. Given CIC's existing investments, including Morgan Stanley and Blackstone, and the fact that New York City offers the world's deepest and most liquid capital markets, the city is a natural choice. Gao responded that he could not give a specific office opening timetable and it may take two or three years to "get the right people together." Gao said he sees New York as a logical next step for CIC, but noted that some feel Hong Kong would be a more appropriate choice for CIC's first office outside the mainland.

**¶4.** (SBU) Lin Shoukang, Managing Director at the CICC (a large investment banking and research company tied to CIC), told the delegation that CICC plans to open an office in New York City by the end of this year.

DOLLAR STILL KING

**¶5.** (SBU) CICC's Lin stated that the U.S. dollar's role in international markets likely would not change over the next few decades. China, in addition, has no choice but to continue to invest in USD-denominated assets. However, Lin speculated there will be a gradual diversification in Chinese-held assets as China's outbound investment environment continues to open. Zeng Peiyan, CCIEE Chairman and former Vice Premier, asserted that, as long as the dollar remained stable, China would continue to purchase

Treasuries.

REBALANCING: STIMULUS, CONSUMPTION, RMB

¶6. (SBU) Representative Moran emphasized in his meetings that China can contribute to U.S.-China relations by increasing imports from the United States and establishing businesses there, rather than continuing to rely on exports to the United States to drive growth. He called rebalancing economic and trade relations a "win-win" situation for both countries. PBOC Governor Zhou Xiaochuan agreed that China should greatly increase imports from the United States, in conjunction with further opening, deregulation, and rebalancing of the Chinese economy. The Chinese Government is considering additional fiscal stimulus spending to further social security and health care reform programs to help encourage consumption.

¶7. (SBU) Other interlocutors struck a less positive note about the prospects for rebalancing. Zhang Lanlan, Managing Director of CICC's Research Department, said that China's position as an exporter is based on its price advantage and that Chinese consumption will not replace U.S. consumption overnight. CCIEE's Chairman Zeng also opined that China's high savings rate was the result of cultural and consumption habits, and would take many years to change. He claimed the trade imbalance between the United States and China cannot be addressed easily, since the imbalance arose from a reasonable global division of labor.

¶8. (SBU) Deng Xianhong, SAFE Deputy Administrator, observed that we have "a long way to go" to correct economic imbalances, including reform of the international economic system as well as greater regulatory cooperation between countries. Readjustment of RMB exchange rates would be a "long and complex process," and any reforms need to be both gradual and comprehensive, including domestic prices and the social safety net. If China focused on

BEIJING 00002609 002 OF 002

exchange rate issues immediately, then enterprises already hurt by the global crisis would suffer more.

INVESTMENT IN US: "YOU HAVE TO CLEAN THE COURTYARD"

¶9. (SBU) Zeng stated that many Chinese companies come to CCIEE for help finding appropriate investments in the United States, but claimed there are barriers to Chinese investment. Offering an example, Zeng claimed the United States blocked the sale of Hummer to a Chinese company for national security reasons. Representative Maloney countered that the concern actually had been the Chinese company's intention to take the factory to China, resulting in a loss of American jobs. To attract more Chinese investment in the United States, especially the financial sector, CBRC Chairman Liu Mingkang commented regulators will, "have to clean the courtyard before having guests."

BANKING REGULATION CONCERNS

¶10. (SBU) CBRC Chairman Liu and Director General Han Mingzhi discussed the two countries' economic regulatory challenges. Chairman Liu noted that not all the economic recovery signals are good in the United States: "Parts of private sector appear profitable but you don't know where the profit comes from. The progress of some firms hides the fact that there has been huge intervention and support to companies; this is only temporary progress; TARP and other remedies are not working." In addition, Liu feels that an exit strategy is missing and that financial institutions cannot yet stand alone.

¶11. The delegation did not clear on this cable.

HUNTSMAN